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Financial Markets

Irving Trust

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Interest rates edged higher over the course of the week after starting out with initial drops. The net result? Little change from Friday to Friday, continuing the general muddle that has characterized markets since the latest (November 19) discount rate cut. This week's negative mood reflected the fading of hopes for a near-term discount rate cut, concern with a heavy supply of Treasury offerings that will be coming on over the next few weeks, and some worries about money supply data (M2 data in particular) to be released this afternoon.

In addition, year-end is setting in. The usual thinning in volume is accentuated by the fact that this was a very good year indeed for many market participants. Because of this, many are unwilling to risk diluting attractive results by making commitments this late in the year, particularly when there is not much temptation to buy. At current yields, the market is fairly priced relative to a 9% discount rate and an 8.5%-9% Fed funds rate. Without some news that would shift this relationship and create a real reason to buy (a "Christmas gift" discount rate cut after the next FOMC meeting, maybe?), there seems little reason to expect any near-term outbreak of good cheer in the credit markets.

Fed moves this week provided little fuel for discount rate cut hopes. Reverses on Tuesday sent market nerves skittering, and the Fed's injection of reserves on Thursday through outright bill purchases was only partially reassuring. Usually this would be done on Wednesday for Thursday settlement; the delay could reflect Fed interest in holding up the Fed funds average for the week and is hardly encouraging. With heavy seasonal add needs coming up, near-term slippage in the funds rate could be on the upside. Supply prospects were also somewhat discouraging, with $12 billion in 4- and 7-year notes to be auctioned next week, and 7- and 10-year issues to be announced for auction in the following week.

Finally, a substantial November M2 increase--$19 to $22 billion--is expected to be announced this afternoon. Money supply data are no longer so critical to market mood as was the case before Mr. Volcker's October announcements, but money supply data can still make markets nervous.

Whatever the market response to today's data, Fed response to money supply data is likely in our view to remain indeterminant for some time. Money data have already been distorted by the maturation of the all-savers certificates; now, new distortions will appear with the introduction of bank accounts similar to money market funds. There will be two types of accounts. One, the "super-NOWs," will only be available to individuals, with a $2,500 minimum balance and unlimited checking. This will be subject to the 12% reserve requirement imposed on demand deposits and will almost certainly be included in M1. The other account, available to corporations and institutions as well as to individuals, will be limited to six transfers per month. Its position in the M's has not yet been clarified. Given these two new instruments, deposit shifts into and out of the various M's in early 1983 are likely to be very substantial, leading to erratic behavior in the M's.

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Market Yields

	12/10/82 (Noon)	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company	11.50%	11.50%	15.75%
Effective since	11/22/82		
Discount Rate at Federal Reserve Bank	9.00	9.00	12.00
Federal Funds	8.88	8.88	12.38
Repurchase Agreements	8.75	8.75	12.25
U.S. Treasury Issues			
Bills			
3 months	8.23	8.14	11.24
6 months	8.76	8.72	12.34
1 year	9.02	9.07	12.75
Coupons			
2 years	9.78	9.70	13.29
4 years	10.47	10.30	13.70
7 years	10.78	10.58	13.98
10 years	10.59	10.46	13.81
Long Bond	10.54	10.47	13.51
Negotiable Certificates of Deposit-Secondary Market			
1 month	8.60	8.50	12.70
3 months	8.80	8.65	12.70
6 months	9.00	8.80	13.30
1 year	9.40	9.20	13.60
Banker's Acceptances			
1 month	8.60	8.50	12.30
3 months	8.80	8.65	12.70
6 months	9.10	8.90	13.25
Eurodollar Deposits			
1 month	9.56	9.31	13.25
2 months	9.63	9.50	13.38
3 months	9.75	9.63	13.63
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	8.63	8.63	12.13
1 month	8.63	8.50	12.13
3 months	8.38	8.38	11.75
Bank Holding Companies			
1 month	7.50	7.50	11.25
Dealer Placed:			
3 months	8.50	8.13	11.75
New AA Corporate Utility Bond	12.00	12.00	16.25
Tax Exempt			
6 month Project Notes	4.90	4.85	7.00
1 year AAA Bond	5.25	5.00	8.00
5 year AAA Bond	7.00	7.00	9.25
20 year AAA Bond	9.50	9.50	12.10

This information represents prevailing market yields.
It should not be construed as an offering.
All yields are on the offered side of the market.

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